

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:143

ANSWERED ON:02.12.2005

HIGHER RATE OF INTEREST CHARGED BY CO-OPERATIVE BANKS

Singh Shri Prabhunath

Will the Minister of FINANCE be pleased to state:

- (a) whether co-operative banks are getting funds at concessional rates from National Bank for Agriculture and Rural Development;
- (b) if so, the details thereof;
- (c) whether the rate of interest charged by co-operative banks on loans advanced to farmers are higher than the commercial banks apart from the penal rate of interest on overdue amount charged by them;
- (d) if so, the reasons therefor; and
- (e) the steps taken to ensure that farmers get loans from co-operative banks at lower rate of interest?

Answer

FINANCE MINISTER (SHRI P.CHIDAMBARAM)

(a) to (e) : A Statement is laid on the Table of the House.

Statement referred to Parts (a) to (e) of Lok Sabha Starred Question No. 143 to be answered on 2nd December, 2005 regarding higher rate of interest charged by Co-operative Bank, tabled by Shri Prabhunath Singh.

(a)&(b): Yes, Sir. NABARD provides refinance to State Co-operative Banks for Short Term Seasonal Agricultural Operations (ST-SAO) and for investment credit at rates of interest varying between 5.5% to 5.75% and 5.5% to 6.75% respectively.

(c),(d)&(e): Interest rates charged by commercial and cooperative banks have been deregulated. Banks are free to determine the rate of interest on loans taking into account their cost of funds and the risk element involved. Such cooperative banks which charge simple rate of interest on loans advanced to farmers as against compound rates of interest charged by commercial banks, charge a penal rate of interest on overdue amount. Due to the multi-tier cooperative structure, the cost of intermediation at each level adds to the final rate at which the borrower receives the loan. Pursuant to the advice of Indian Banks' Association to Public Sector Banks to charge a rate of interest of not more than 9% per annum on crop loans upto Rs.50,000/-, NABARD has advised cooperative banks to charge a low rate of interest on crop loans. The rate of interest of cooperative banks has come down considerably on loans disbursed through Kisan Credit Cards.